

# Investment Office California Investments Update

Joe Dear

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# Today's Agenda

- Investing In California Overview
- Review CalPERS for California
- Review California Initiative
- Next Steps

# Investing in California

- At \$1.8 trillion, California represents 13% of U.S. Gross Domestic Product and ranks as the world's eighth largest economy
- Over the past eleven years, an average of 10% of the Total Fund has been invested in California
- The \$17 billion invested in California at June 30, 2010 represented 8.5% of our total portfolio and 13% of our domestic portfolio

## Investing in California – *cont.*

- The primary objective of all of our investments, including those in California, is to achieve the best possible risk-adjusted returns on investment
- California's large and vibrant economy will continue to attract a portion of our total investments, consistent with our fiduciary duty

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# CalPERS for California: Overview

- CalPERS invested \$17 billion in California at June 30, 2010 supporting local employment, business expansion, and infrastructure development
- CalPERS investments in California result from the size and diversity of the California economy
- CalPERS investments leverage additional capital for California-based companies, properties, and projects
- CalPERS investments support underserved communities such as:
  - Low to Moderate Income Areas
  - High Unemployment Areas
  - High Minority Areas
  - Rural Areas

# CalPERS for California: Methodology

- Geographic characteristics are used to describe the breadth of the System's exposure to California
  - Geographic Information Systems (GIS) mapping
  - Address information of companies, properties, and projects
- Separation of public and private markets
  - Ancillary benefits are attributed differently to public and private markets
- Estimates of job creation are based on the percentage of company facilities located in California

# California Investments

**CalPERS Investments By Asset Class – June 30, 2010 (in billions)**

|                   | Total Portfolio Value | Dollars invested in California | Percentage of dollars invested in California |
|-------------------|-----------------------|--------------------------------|--|
| Public Equities   | \$94.5                | \$6.1                          | 6.5%   |
| Private Equity    | \$28.8                | \$2.9                          | 10.1%  |
| Real Estate       | \$14.9                | \$3.3                          | 22.0%  |
| Infrastructure    | \$0.4                 | \$0.1                          | 18.5%  |
| Fixed Income      | \$49.0                | \$4.7                          | 9.6%   |
| Other             | \$12.9                | --                             |  |
| All CalPERS Total | \$200.5               | \$17.1                         | 8.5%   |



# CalPERS for California: Highlights

- \$6.1 billion of public equity capital is invested in 644 California-headquartered public companies, which employ over 700,000 people in the state – nearly 5 percent of California's total workforce.
- \$4.7 billion of fixed income capital is invested in California, including \$810 million in 14 California-headquartered corporate bond issuers employing over 85,000 workers in the state.
- \$2.9 billion of private equity capital is invested in 1,331 California-headquartered private companies, which support more than 140,000 local jobs.

## CalPERS for California: Highlights *cont.*

- \$3.3 billion of real estate capital is invested in 387 California-based projects, the benefits of which include construction, property asset management and servicing, affordable and workforce housing, and transit-oriented community development.
- \$80 million of infrastructure capital is invested in six California-based infrastructure projects with \$73.6 million in projects providing reliable water supplies to drought-prone areas.

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# California Initiative Mission Statement<sup>1</sup>

"The California Initiative will invest in traditionally underserved markets primarily, but not exclusively, located in California. The objective is to discover and invest in opportunities that may have been bypassed or not reviewed by other sources of investment capital. These opportunities should offer attractive risk-adjusted returns commensurate with their asset class."

| Implementation |               |  |
|----------------|---------------|--|
| Year           | Commitment    | Strategy   |
| 2001           | \$480 million | Nine partnerships and one separate account fund-of-funds           |
| 2007           | \$560 million | One Separate account fund-of-funds with co-investment capabilities |

<sup>1</sup> Approved by the CalPERS Investment Committee in May 2001

# The California Initiative – Phase I & II Performance

Results as of September 30, 2010

Phase I has generated returns commensurate with the asset class to date

|  | Phase I                      | Phase II                   | Combined                   |
|--|------------------------------|----------------------------|----------------------------|
| Program Vintage Year                                 | 2001                         | 2007                       |                            |
| Dollars Invested                                     | \$429.1.0 million<br>(89.4%) | \$327.7 million<br>(58.5%) | \$756.8 million<br>(72.8%) |
| Total # of Co. Funded                                | 284                          | 160                        | 444                        |
| Distributions  | \$259.5 million              | \$21.8 million             | \$281.3 million            |
| Distributions + Unrealized Value                     | \$785.9 million              | \$296.3 million            | \$1,082.2 million          |
| Net Gain (Loss)                                      | \$356.7 million              | -\$31.4 million            | \$325.3 million            |
| Multiple on Invested Capital                         | 1.8x                         | 0.9x                       | 1.4x                       |
| Net IRR  | 16.2%                        | -4.61%                     | 12.0%                      |
| Venture Economics All PE median<br>returns (9/30/10) | 2.02%                        | 1.77%                      |                            |

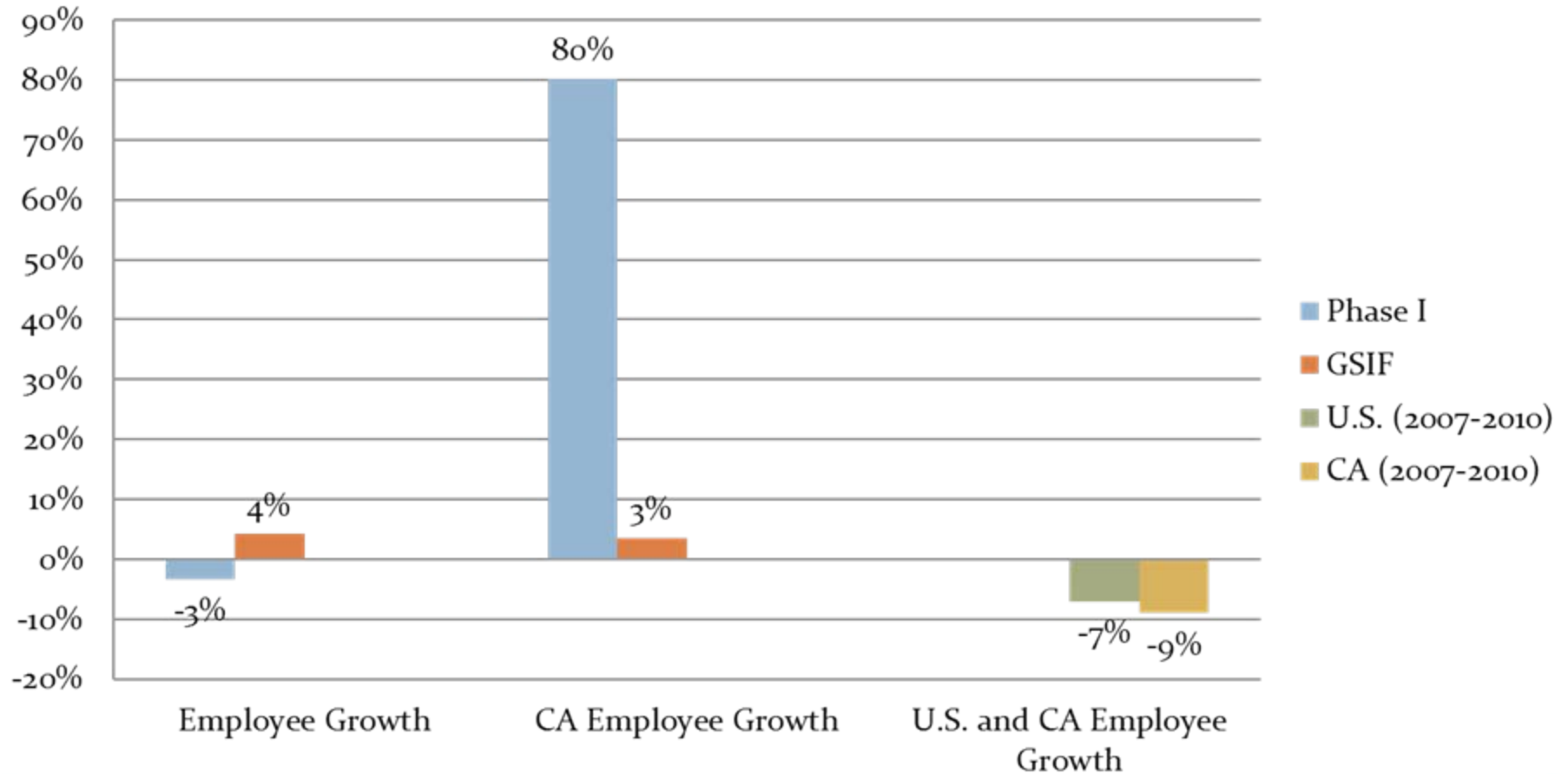
The combined since inception performance is tracking in the  
second quartile of Venture Economics

# Ancillary Benefits Overview

- Data collected from 141 active portfolio companies that received capital through private equity funds and direct co-investments in Phase I and GSIF
  - Support over 68,000 jobs (and over 17,000 jobs in California)
  - 115 “California Companies”
- Creation and preservation of jobs
  - 5% CA job growth during the economic downturn (2007-2010)
- Access to capital
  - 45% of companies located in underserved markets
- Employing workers in economically disadvantaged areas
  - 52% of GSIF employees classified as LMI
- Supporting female and minority entrepreneurs and managers
  - Levels outpace national averages

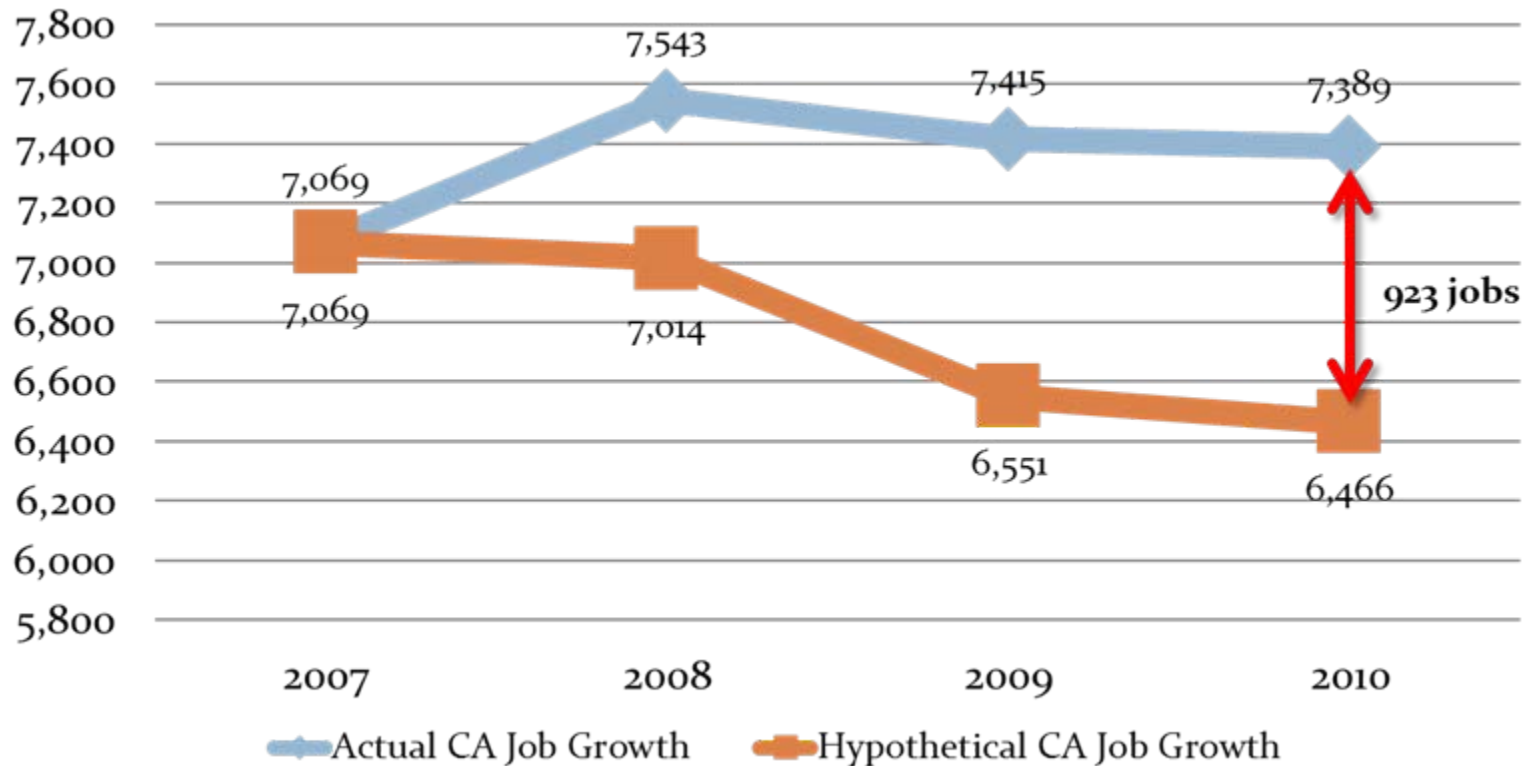
# Creation and Preservation of Jobs

## California Initiative Job Growth Since Investment



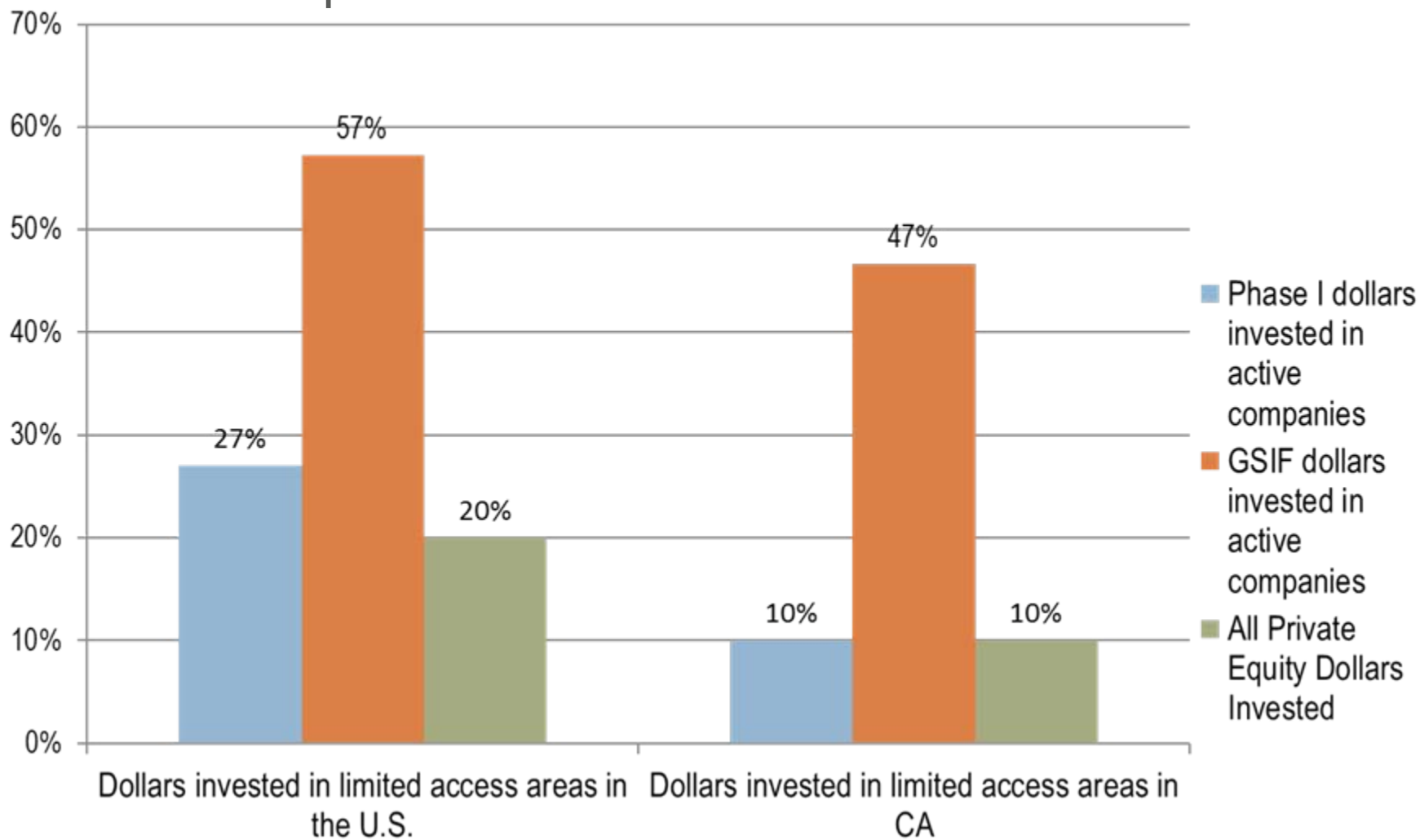
# Creation and Preservation of Jobs

California job growth for the 40 companies that provided data for four consecutive years: actual vs “hypothetical” (overall CA private sector job growth)





# Access to Capital



# Employing LMI Workers and Supporting Women and Minority Entrepreneurs

- 52% of GSIF employees are classified as LMI
- California Initiative portfolio companies employ:
  - 13% female officers
  - 12% minority officers
- 42% of capital is allocated to portfolio companies that employ at least one female officer
- 61% of capital is allocated to portfolio companies that employ at least one minority officer

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# Investing in California – Considerations

- Investment opportunities in California are evaluated consistent with our fiduciary duty and can produce not only positive returns, but also benefit the State's economy as a whole
- Taking into account that our revenue stream from employers is 100% California-based, there is a risk from concentrating too much capital in California
- We will continue to evaluate possible investments in California as outlined in the following slides

# Next Steps for the AIM Program

- 10% of AIM's market value is invested in over 1,300 companies across California
- AIM will:
  - Continue sourcing and reviewing California private equity opportunities that meet our criteria
  - Engage Hamilton Lane as a non-discretionary advisor to assist AIM in sourcing, reviewing and conducting due diligence on partnership and co-investment opportunities in California

## Next Steps for Real Assets

- 22% of Real Estate's market value is invested in 387 California-based projects
- **Real Estate Base Core Portfolio**: Target a benchmark neutral weighting of California Core Investments in this segment of the Portfolio which could gradually expand commitments to California over time
- **Real Estate Domestic Tactical Portfolio**: Re-examine the role of the CURE Program within our developing Domestic Tactical Portfolio, while evaluating potential California urban opportunities.

## Next Steps for Real Assets *cont.*

- 18.5% of Infrastructure's market value is invested six California-based infrastructure projects
- **Infrastructure:** The current deal pipeline includes potential opportunities to invest with California-based sponsors, and to invest in California-based projects in the following sub-sectors:
  - Renewable Power Generation
  - Power Transmission
  - Energy Pipelines

# Conclusion

- At June 30, 2010, CalPERS had \$17 billion invested in California; 8.5% of our total portfolio and 13% of our domestic portfolio
- Invested in over 2000 California-based companies and projects and supports roughly 1 million local jobs
- Continue to evaluate opportunities to invest within California, consistent with our fiduciary duty and strategic plans, to produce positive returns and also benefit the State's economy as a whole



# California Initiative Appendix: BAML Capital Access Fund report

# Banc of America Capital Access Funds

- Invested \$100 million in 15 private equity partnerships and 162 companies
    - 33% are headquartered in California
    - 17% are classified as “Inner City” companies where venture capital traditionally is not invested
    - 43% are located in LMI areas
    - 28% are located in census tracts where the median income is below 80% of median income for the surrounding area
    - 31% are majority owned or managed by minorities
    - 45% have some female ownership
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